Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of	)	
	)	
Petition for Rulemaking to Amend Part 32 of the Commission's Rules to Eliminate Detailed Property Records for Certain Support Assets	))))	RM 8640

REPLY COMMENTS

U S WEST Communications, Inc. ("U S WEST"), through counsel and pursuant to the Federal Communications Commission's ("Commission") Public Notice,[1] hereby files its reply to comments on the United States Telephone Association's ("USTA") request that local exchange carriers ("LEC") be permitted to employ a vintage amortization level ("VAL") property record system.[2]

I. INTRODUCTION

Fifteen parties filed comments on USTA's Petition containing its VAL proposal.[3] The parties consisted of nine LECs, one interexchange carrier (i.e., MCI),

[1] Public Notice, United States Telephone Association Files a Petition for Rulemaking to Amend Part 32 of the Commission's Rules to Eliminate Detailed Property Records for Certain Support Assets, 10 FCC Rcd. 5054 (1995).

[2] USTA Petition for Rulemaking, RM 8640, filed May 31, 1994 ("Petition").

[3] Comments were filed by the Ameritech Operating Companies ("Ameritech"), Bell Atlantic Telephone Companies, BellSouth Telecommunications, Inc. ("BellSouth"), Cincinnati Bell Telephone Company, GTE Service Corporation, MCI Telecommunications Corporation ("MCI"), National Association of Regulatory Utility Commissioners ("NARUC"), New York State Department of Public Service ("New York"), NYNEX Telephone Companies, Pacific Bell and Nevada Bell ("Pacific"), Pennsylvania Public Utility Commission ("Pennsylvania"), Public Service Commission of Wisconsin

and 5 parties representing the interests of state regulatory agencies (i.e., including NARUC). The LECs unanimously supported the VAL proposal as a means of reducing accounting administrative costs associated with support assets with little or no risk. MCI opposed the USTA proposal, claiming that no evidence had been provided on the administrative burden of current continuing property record ("CPR") requirements and that the auditing process would be "exacerbated." Parties representing state regulators split -- with Wisconsin and Pennsylvania supporting USTA's proposal and NARUC, Ohio, and New York opposing.[4]

II. CURRENT CPR REQUIREMENTS FOR SUPPORT ASSETS FORCE LECS TO INCUR UNREASONABLY HIGH COSTS FOR ACCOUNTING ADMINISTRATION

U S WEST and other LECs provide sufficient evidence in their comments for the Commission to conclude that USTA is correct in its assertion that a disproportionate amount of expense is incurred to maintain CPRs for support assets. U S WEST pointed out that it expends approximately 25 percent of its fixed asset accounting administrative costs to establish and maintain basic property records for support assets which make up about five percent of its total investment.[5] The comments of other LECs demonstrate that U S WEST's experience is not unique.[6] As

("Wisconsin"), Public Utilities Commission of Ohio ("Ohio"), Southwestern Bell Telephone Company and U S WEST.

[4] It should be noted that New York supported the elimination of CPRs for certain support assets. New York at 3.

[5] U S WEST at 3.

[6] See, e.g., Ameritech at 2; BellSouth at 5-6; Pacific at 2-3.

such, the Commission should reject MCI's claim that there is no evidence that existing CPR requirements are burdensome.

III. THERE IS NO BASIS FOR NARUC'S CONCERN THAT USTA'S PETITION IS THE FIRST STEP IN ELIMINATING CPRS IN THEIR ENTIRETY

NARUC expresses the concern that the adoption of USTA's VAL proposal will lead to the eventual elimination of all CPRs.[7] Contrary to the implications of NARUC, CPRs serve numerous purposes in addition to regulatory purposes. U S WEST has no interest in eliminating CPRs in their entirety and it is highly unlikely that any other LEC would support total elimination of CPRs.

The issue is not whether all CPRs should be eliminated -- but rather for which categories should they be maintained. No one would suggest that CPRs be maintained for items such as pens and staplers. It is obvious that the cost of creating and maintaining property records for such small items would far exceed any benefits associated with the property records. The same logic holds true for other asset categories -- if units are too small and numerous, the costs of creating and maintaining records far exceeds any incremental benefits of such records.

Thus, a key consideration in the decision to require CPRs should be the costs/benefits of maintaining CPRs for a given category of assets. Clearly, U S WEST and other LECs expend a disproportionate amount of their asset accounting resources on establishing and maintaining CPRs for support assets. It should not be a surprise to NARUC or anyone else that LECs support USTA's VAL

[7] NARUC at 5-6.

proposal. NARUC's concern that adoption of VAL is "the first step down a slippery slope" is unmerited. Neither Wisconsin nor Pennsylvania shared any such concern in supporting the adoption of USTA's VAL proposal.

IV. CPRS FOR SUPPORT ASSETS PROVIDE LITTLE OR NO PROTECTION AGAINST CROSS-SUBSIDIZATION -- THEIR EXISTENCE ONLY INCREASES COSTS

NARUC criticizes USTA's Petition for not addressing how transfers, adjustments, and reclassifications of plant would be handled. NARUC asserts that because of the "tremendous amount of this type of activity occurring in and out of these accounts, an appropriate mechanism needs to be established prior to any implementation to prevent any cross-subsidization."[8] U S WEST disagrees. The opportunities for and possibility of cross-subsidization are minimal in such cases. Moreover, asset accounting administrative costs associated with "transfers, adjustments, and reclassifications" of support assets are one of the primary reasons why LECs support the VAL proposal.

Support assets are different from other major categories of telephone plant in that they are not directly used in the provision of telephone services. Support assets are used in conjunction with other assets and generally are subject to more movement than other plant assets. In most cases, support assets are transferred within the same jurisdiction and continue to be used in the provision of regulated telephone service. Cross-subsidization would not even be an issue in such cases.

[8] NARUC at 6.

For example, a truck may be transferred from a garage in one part of a city to another garage in that same city. Under existing procedures, LEC CPRs must be updated as a result of such a transfer. Clearly, neither ratepayers nor shareholders benefit from the cost of transferring this asset from one location to another. Adoption of USTA's VAL proposal would eliminate the need for many such CPR changes and the unnecessary accounting costs associated with them.

V. CONCLUSION

As U S WEST has demonstrated in this reply and earlier comments, USTA's VAL proposal would serve the public interest by eliminating unnecessary accounting expenses. Commenters have provided no evidence or arguments which would lead the Commission to conclude that it should continue to require CPRs for support assets.

Respectfully submitted,

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August 1, 1995

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CERTIFICATE OF SERVICE

I, Kelseau Powe, Jr., do hereby certify that on this 1st day of August, 1995, I have caused a copy of the foregoing **REPLY COMMENTS** to be served via First Class United States Mail, postage prepaid, upon the persons listed on the attached service list.

Kelseau Powe, Jr.

***Via Hand-Delivery**

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